

INTER-AMERICAN DIALOGUE

Free Trade in the Americas: *Getting There from Here*

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October 2004





The Inter-American Dialogue

The Inter-American Dialogue is the leading U.S. center for policy analysis, exchange, and communication on issues in Western Hemisphere affairs. The Dialogue brings together public and private leaders from across the Americas to address key hemispheric problems and opportunities.

The Dialogue's select membership of 100 distinguished citizens from throughout the Americas includes political, business, academic, media, and other nongovernmental leaders. Eleven Dialogue members served as presidents of their countries and more than a dozen have served at the cabinet level.

Dialogue activities are directed to generating new policy ideas and practical proposals for action, and getting these ideas and proposals to government and private decision makers. The Dialogue also offers diverse Latin American and Caribbean voices access to U.S. policy debates and discussions. Based in Washington, the Dialogue conducts its work throughout the hemisphere. A majority of our Board of Directors are from Latin American and Caribbean nations, as are more than half of the Dialogue's members and participants in our other leadership networks and task forces.

Since 1982—through successive Republican and Democratic administrations and many changes of leadership elsewhere in the hemisphere—the Dialogue has helped shape the agenda of issues and choices in inter-American relations.

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Introduction

by Carla A. Hills

For more than a century, U.S. attention to Latin America has been subject to sharp cyclical swings, alternating between brief periods of intense interest followed by longer periods of indifference. Enthusiastically, we have announced programs like Pan Americanism, the Good Neighbor Policy, and the Alliance for Progress only to ignore them a few years later.

Following the debt crisis of 1982, Latin countries shouldered an unsustainable debt burden that limited their access to international capital markets and produced a deep and prolonged period of economic stagnation that came to be called the “lost decade.” Economic growth was hindered by massive state intervention in the economies. Markets were closed. Many Latin American countries suffered civil unrest, and in others, stability was achieved at the price of dictatorship.

This was the period when countries in the region began to embrace the idea that market regimes and democratic governance were more likely to stimulate economic growth and raise standards of living than state-run regimes.

To encourage this reform, in June 1990, then-President George H.W. Bush announced his Enterprise for the Americas Initiative which envisioned debt relief in exchange for continued economic reform and proposed free trade from “the tip of Alaska to the tip of Argentina,” which ignited an enormous wave of enthusiasm and goodwill toward the United States throughout the region.

The first step in implementing the trade portion of the initiative was the negotiation of the North American Free Trade Agreement (NAFTA), which began in 1991 and concluded in 1992. NAFTA was the most comprehensive trade agreement ever reached:

- It eliminated, not just reduced, tariffs on all industrial goods.
- It removed all barriers on agricultural trade between Mexico and the United States, the first trade agreement to do so.
- It opened a broad range of services, including financial services.

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Carla Hills is chair and CEO of Hills & Company. Previously she served as U.S. trade representative and as secretary of housing and urban development.

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- It provided the highest standard of protection for intellectual property of any trade agreement.
- It established clear rules to protect investors, something not yet achieved multilaterally.

As a result of NAFTA’s market-opening provisions, the partners’ trade with each other grew much faster than their trade with the rest of the world. Foreign direct investment within the North American region soared as the NAFTA partners substantially increased investment in each other’s markets and as the agreement stimulated increased investment from countries outside the region.

But NAFTA’s negotiation did more than stimulate trade and investment in North America. It demonstrated that nations of very different cultural backgrounds, languages, and levels of development could successfully negotiate an agreement that would enlarge opportunities for all of the participants.

Furthermore, it persuaded the 34 hemispheric leaders attending the Miami Summit in 1994—one year after the U.S. Congress ratified the agreement—to commit to negotiate by 2005 a comprehensive Free Trade Area for the Americas (FTAA) that was patterned on NAFTA. Several months later, these same leaders joined over 100 other heads of state to sign the multilateral trade agreement that created the World Trade Organization (WTO).

The prospect of a closer, more prosperous connection with the United States encouraged governments throughout the region to privatize their state-owned industries, strengthen macroeconomic policies, reduce commercial regulation, and open their markets to foreign goods and capital.

By the mid-1990s, Latin America was literally a region transformed. Privatization replaced statism, inflation was driven down from a yearly average of over 400 percent in 1990 to about 15 percent, and net private capital flows to the region between 1990 and 1996 averaged \$46 billion annually as compared to an annual average of minus \$800 million between 1984 and 1989. At the same time, democratically elected governments became the norm rather than the exception. These rapid economic and political changes raised high expectations worldwide that these formerly sluggish economies would be transformed into “Latin Tigers.” This was to be the century of “The Americas.”

But in the United States, the mid '90s brought the expiration of the president's trade negotiating authority—the so-called “fast track” authority. The antagonism that labor demonstrated toward NAFTA during its rancorous ratification process persuaded the Clinton administration not to press for fast track renewal. The dream of hemispheric free trade envisioned earlier by the Enterprise for the Americas Initiative was put on hold.

For the next eight years, the United States experienced another bout of attention deficit toward the region. Latin America grew discouraged with the visible loss of momentum. Reform fatigue impeded efforts to deal with critical institutional weaknesses, which put the dramatic progress of the prior half-decade in jeopardy.

That was the environment in 1998 when the FTAA negotiations were formally launched. It was not until the summer of 2002 that President George W. Bush obtained fast track authority, by a slim three-vote margin in the House of Representatives. But by then, the world was in the midst of an economic slowdown, aggravated by the tragedy of September 11.

Just two months after the 9/11 attacks, the trade ministers of the then-144 WTO member nations met in Doha, Qatar, and agreed to launch the ninth Round of Multilateral Trade Talks based on the view that poverty creates conditions hostile to the maintenance of peace. They determined that the Doha Round would focus on poverty alleviation and integrating poor nations into the global trading system, and set a deadline for the Doha Round of January 1, 2005—the same deadline as existed for the FTAA.

Because poor countries' economies are largely agrarian, integrating them into the global trading system necessitates a dismantling of the high and pervasive barriers that limit agricultural trade: namely, export subsidies, domestic supports to farmers that distort global trade, and restrictions to market access. Agriculture is a key trading interest for many Latin American nations, including Brazil. But because Europe, Japan, and South Korea, along with the United States, have very substantial programs that profoundly distort global markets for agricultural trade, meaningful agricultural reform requires a global rather than regional solution.

A global solution escaped trade ministers with the collapse of the Cancun Ministerial in September 2003. Instead of a dynamic

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FTAA breathing new life into the stalled Doha Round, as the NAFTA did with the Uruguay Round, progress for the FTAA was put on hold awaiting a solution to agriculture in the global trade talks. A complete solution is unlikely to be found before the elections scheduled in both the United States and Brazil later this year. And the electoral outcomes could profoundly affect whether and how fast the negotiations move forward thereafter.

Should we care about whether the FTAA succeeds? In my view, the answer must be a resounding “YES!”

The countries of Latin America are our neighbors with whom we share a continent and with whom we have an increasing social connection. Our links have multiplied exponentially over recent years, driven by the affordability of communications and transportation and multiplied by massive migration.

Together we face a host of complex challenges—like narcotics trafficking, terrorism, disease, crime, environmental degradation, and illegal immigration—that cannot be effectively addressed without close collaboration.

Economically, it makes a great deal of sense for us to work together. Latin America presents a market of over 500 million people with an output of \$2 trillion (which with proper policies could be significantly larger). As the region prospers, so do our commercial opportunities.

Yet all is not well in Latin America today. The region is experiencing its weakest economic performance in many years. Between 1998 and the present, there has been virtually no per capita growth. In many of the countries per capita income has actually fallen, while unemployment has soared. Many Latin American governments, particularly those of the Andean nations, are dangerously fragile.

A successful FTAA could bring hope and opportunity to the region, giving new reason to resume the reforms that began so propitiously in the early '90s. Enhanced prosperity in the region would substantially strengthen hemispheric stability. A strong and secure hemisphere in turn significantly advances our economic, social, and security interests.

So what are the prospects for a successful FTAA?

This past May, the Inter-American Dialogue invited three outstanding scholars of trade policy—from the United States,

Mexico, and Brazil—to present their views on that very subject. Three splendid papers that constitute this report are the result.

The first paper, entitled “Whither the Free Trade Area of the Americas?,” was written by Jeffrey J. Schott, currently a senior fellow with the Institute for International Economics, who has served in the U.S. government and written extensively on trade and economic issues. He provides a cogent analysis of where the parties are, what they must do to achieve success, and when this could happen. He urges a big package of market access reforms and ably explains why.

The second paper, “The Long and Winding Road to Hemispheric Integration: Ten Key Elements in Understanding the FTAA,” was written by Jaime Zabludovsky, who has played a key role in Mexico’s trade negotiations for more than a decade, having served as ambassador of Mexico to the European Union where he was Mexico’s chief negotiator for the Mexico-European Union Free Trade Agreement; earlier, he served as deputy secretary for international trade negotiations at the Secretariat of Trade and Industrial Promotion (SECOFI). He provides a clear picture of the imbalance between the objectives of the United States and the Mercosur nations, outlines three possible outcomes, and explains the limitations of each.

The final paper—“Free Trade in the Americas: Where Are we? Where Could We Be Headed?”—was written by Marcos Sawaya Jank, president of the Institute for International Trade Negotiations (ICONE) and professor of trade policy at the Faculty of Economics and Business, University of Sao Paulo; assisted by Zuleika Arashiro, senior researcher at ICONE. Professor Jank earlier served as a special counselor to the Brazilian minister of development, industry, and trade. He describes three possible outcomes for the FTAA, pointing out the weaknesses that he perceives in each, and setting forth a way in which he believes the negotiations might be invigorated.

Each of these well-written presentations emits some degree of pessimism concerning the likelihood of a robust outcome for the FTAA—not because the agreement would not advance the welfare of the participants, but rather for want of political will.

All of our governments need the support of broader constituencies for open markets. Large numbers of our citizens

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are skeptical about whether they benefit from trade agreements. Too many believe that such agreements cost more jobs than they create.

The anti-trade and anti-globalization movement gained international visibility at the 1999 meeting of trade ministers in Seattle. Since then, organized protests—many of them violent—have been a regular feature of every international meeting of the WTO, International Monetary Fund, and World Bank. Fifty thousand protesters marched on Cancun.

We can agree with the marchers that trade liberalization is not a panacea for the region’s ills. Trade and investment alone do not educate children nor eradicate disease. But it is indisputable that broad trade agreements that lock in existing liberalization and encourage future reform help create the resources needed to deal with these and other tough social problems.

To enable our governments to move ahead on a collaborative agenda that could generate growth, opinion leaders throughout the Americas must help persuade our citizens that hemispheric integration constitutes a proven way to tap into new opportunities that can raise standards of living.

All of our governments could speak more forcefully about the benefits to be derived from a comprehensive FTAA. But the effort to explain the merits of opening markets is not something that governments can, or should, be expected to do alone. Think tanks, the media, opinion leaders, and especially businesses could do so much more.

That is why this report produced by the Inter-American Dialogue merits broad attention.

The Long and Winding Road to Hemispheric Integration:

Ten Key Elements in Understanding the FTAA

by Jaime Zabłudovsky

1. 1994 Summit of the Americas: Rhetoric Abandoned, Hemispheric Integration Looks Possible

It has been nearly 10 years since the heads of state of 34 nations launched the first negotiations for the Free Trade Area of the Americas (FTAA), the most ambitious foreign policy initiative in decades. The Miami Summit generated great expectations. Rhetoric appeared to have been left behind, and the long-standing desire for hemispheric integration at least seemed possible.

Since the 1994 summit, significant progress has been achieved. Despite macroeconomic problems and political crises in some of the participating countries, the initiative has been kept alive. Nevertheless, the challenge ahead is a daunting one. With the deadline for completion of the FTAA less than one year away, there is still far too much to be agreed to, and the negotiations are currently stalled.

2. 1994–2000: United States Drops Its Leadership Role

During the first six years of the FTAA, no real negotiations took place. The reason is simple. With the target date for the completion of the agreement so distant, no country was willing to table any serious offer, knowing in advance that all substantive discussions would have to wait for the closing stage of the negotiations.

Moreover, the most important players in the FTAA—with the notable exceptions of Canada and Chile—had other priorities during this period.

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- In the United States, after the approval of the North American Free Trade Agreement (NAFTA) and the conclusion of the Uruguay Round, the Clinton administration renounced the leadership role the United States had traditionally played in international trade negotiations. Opposition from labor unions and other sectors of the Democratic Party to further trade liberalization made it very difficult for the U.S. government to maintain the momentum gathered during NAFTA. The collapse of the World Trade Organization (WTO) Seattle Ministerial in November 1999 and the failure to obtain “fast track” authority are just two examples of the problems faced by the Clinton administration in this area.
- For the Mercosur countries, the FTAA was not a priority during the '90s. Argentina, Brazil, Paraguay, and Uruguay were mostly concerned with the challenges posed by the macroeconomic and political crises they faced and by their own regional integration processes.
- Mexico, which did not have many incentives to share its preferential access to the U.S. market,¹ used the NAFTA impetus to negotiate a large number of free trade agreements, developing the most ambitious network of accords in the hemisphere.

Meanwhile, Canada and Chile, although they maintained an active commitment to the FTAA process, exploited the leadership vacuum created by the United States to sign free trade agreements (FTAs) with regional partners.

3. 2001–04: United States Recovers the Lead

Upon assuming office in 2001, the Bush administration renewed the U.S. initiative in trade negotiations. It invested the political capital needed to obtain negotiating authority and provided the leadership to launch a new multilateral Round in Doha in 2001. Last, but not least, it implemented a competitive negotiations strategy in response to certain FTAA rules that appeared to hamstring the process.

¹ Canada and Israel were the only other countries to benefit from such access through free trade agreements with the United States.

² Summit of the Americas, Fourth Trade Ministerial Meeting, Joint Declaration, San José, Costa Rica, March 19, 1998.

In San José, Costa Rica, the FTAA countries had agreed that: “The initiation, conduct and outcome of the negotiations of the FTAA shall be treated as parts of a single undertaking which will embody the rights and obligations as mutually agreed upon... The rights and obligations of the FTAA will be shared by all countries...”²

In practice, this “single undertaking” principle proved to be a major constraint in the FTAA negotiations, serving to extend a de facto veto power to each participant regardless of its size or its commitment to the initiative. The single undertaking principle and the consensus rule together meant that the pace of negotiations was dictated by the slowest of the pack, and the scope of the intended agreement was defined by the least ambitious among the participants.

To change the dynamics of the negotiations and regain leadership, the United States began a series of competitive negotiations. Once President Bush obtained the negotiating authority in August 2002, the U.S. trade representative concluded bilateral agreements with Singapore and Chile, and announced the start-up of negotiations with Australia, the Southern Africa Customs Union, Central America, Morocco, Bahrain, and the Dominican Republic. Later, at the FTAA's ministerial meeting in Miami, negotiations for FTAs between the United States and Panama, Colombia, Bolivia, Ecuador, and Peru were announced.

Before the new U.S. strategy was adopted, the Latin American and Caribbean countries perceived that the FTAA was not only the fastest, but also the only, way to obtain free trade with the United States. With the launch of the new policy, however, it became clear that the United States was not willing to wait until the hemispheric initiative became a reality to advance its trade agenda on the continent.

4. Imbalance Exists between U.S. and Mercosur Negotiating Interests

The new U.S. leadership and the approaching 2005 target date lent impetus to the FTAA negotiations; very soon thereafter, the major interests of the participants became apparent. And, without underestimating the relevance of and challenges to all of the countries participating in the hemispheric initiative, the

“The vastly differing priorities of the U.S. and Mercosur were soon seen as the major stumbling block in negotiations.”

“Because the U.S. is already a relatively open economy, the substantive concessions it can offer Mercosur are very few.”

vastly differing priorities of the United States and Mercosur—particularly Brazil—were soon seen as the major stumbling block in the negotiations.

The core defensive and offensive interests of the FTAA members are summarized in table 1.³ *Defensive interests* are those that try to preserve the status quo and are generally associated with protecting the domestic market. *Offensive interests* aim at liberalizing—or imposing new discipline on—the other participants’ markets.

The United States has offensive interests in eight of nine negotiating areas and defensive interests in two: antidumping and agriculture—domestic subsidies and market access for a group of products that benefit from significant protection such as sugar, tobacco, citrus fruits, and peanuts, among others. These two highly sensitive issues for the United States are precisely the main offensive interests for Mercosur. Regarding the rest of the agenda, the South American bloc has a conservative position, specifically in terms of market access for industrial goods, investment, services, intellectual property, and government procurement.

Mercosur’s defensive agenda also clashes with U.S. offensive interests. The United States aims to dismantle Mercosur’s high level of industrial protection (the average tariff is around 15 percent). It seeks South American adoption of strict intellectual property, investment, service, and government procurement disciplines. Because the United States is already a relatively open economy, the substantive concessions it can offer Mercosur are very few and are concentrated in extremely sensitive sectors: i.e., tariff ceilings for apparel, textiles, and footwear and some agricultural products (sugar, tobacco, citrus, etc.)

Mercosur has indicated that, in any case, these concessions would not be sufficient to accommodate the U.S. offensive agenda. It therefore has requested adoption of disciplines for agricultural subsidies and trade remedy measures into the FTAA framework.

The inclusion of these two issues creates serious technical and political difficulties. Domestic agricultural support programs are,

³ *The interests of the various FTAA participants are detailed in H. Blanco and J. Zabludovsky, Free Trade Area of the Americas: The Scope of the Negotiations, Working Paper SITI-01 (Buenos Aires: Inter-American Development Bank, 2003); www.iadb.org/intal/ingles/publicaciones/Blanco-Zabludovsky_WP-SITI-01.pdf.*

Table 1

The FTAA “Lockshop”: Summary of Participants’ Main Defensive and Offensive Interests

Country/group	Market access	Agriculture	Investment	Services	Government procurement	Intellectual property	Antidumping/ Countervailing Duties	Competition	Dispute settlement
United States	* BBB	*** BBB	BBB	* BBB	BBB	BBB	***	BB	BB
Canada	* BBB	** B	BB	** BBB	BB	BB	BBB	BB	BB
Mexico	** BB	*** B	* BB	* B	BB	BB	BBB	B	BB
Chile	* B	** BBB	* B	* BBB	*	B	BBB	BB	BB
Central America	* BBB	** BBB	*	*	*	*	BB	*	BB
Mercosur	*** B	* BBB	***	**	**	** B	BBB	* B	BB
Andean Community	** BB	* BBB	**	*	**	**	BBB	*	BB
Caribbean	*** BB	* BBB	**	*	**	**	BB	*	BB

* Defensive Interests
B Offensive Interests

*** Strong

** Regular

* Weak

“The U.S. reluctance to modify its trade remedies regime is more a political constraint than a technical one.”

by definition, applied across the board, regardless of the final destination of the subsidized commodity. Because it is impossible to eliminate the subsidy exclusively for exported products, therefore, it is not realistic to assume that the United States would agree to modify its agricultural support policy in the framework of a regional negotiation. Accordingly, the United States has indicated that this issue should be addressed in the WTO rather than in the FTAA.

The U.S. reluctance to modify its trade remedies regime is more a political constraint than a technical one. In every recent trade negotiation, the U.S. Congress has expressed its opposition to any modification that could undermine the effectiveness of the current protection regime. Therefore, in the best scenario, any reform to U.S. antidumping legislation would have to be part of a broader package, ample enough to offset the protectionist interests in the United States supporting the trade remedy legislation. It does not appear that the FTAA could generate such support. Similarly, antidumping is another issue best addressed in the Doha Round.

5. Different Approaches to Negotiation Also Exist

There are two very different approaches to a free trade negotiation with the United States. The first is to view the process as an opportunity to promote economic reforms that have their own merit regardless of the concessions received in exchange. This is the approach that countries such as Mexico, Chile, and the Central American nations have adopted in order to succeed in their respective negotiations with the United States. They gained preferential access to the United States in exchange for their liberalization efforts and the adoption of the strong disciplines of a market-oriented economy. In all cases, these countries were convinced of the benefits of the reforms implicit in the FTA and the credibility obtained by locking them into an international agreement with the United States.

On the other hand, a trade negotiation can be approached as an accounting exercise, in which the results are evaluated in terms of the concessions gained and the concessions extended.

Under this approach it is, however, extremely difficult to strike a balance between offensive and defensive interests in a trade negotiation with the United States. The U.S. economy has relatively

few concessions to make—access to its agricultural market and elimination of a few industrial tariff ceilings—but has a long list of offensive interests—elimination of high agricultural and industrial tariffs; liberalization of service, investment, and government procurement regimes; and strict intellectual property rights. The figures just do not add up.

6. Cancun Failure Closes Window of Opportunity for Addressing Imbalances

The original agreement on 2005 as the end date for the Doha Development Agenda created the possibility for synergy between the FTAA and WTO negotiations. In a positive scenario, such synergy could have helped overcome some of the major obstacles that have become evident at the hemispheric level.

The coincidence of target dates for concluding both negotiations was particularly propitious. The possibility that domestic agricultural support programs and antidumping remedies could have been dealt with in Geneva, while the rest of the FTAA agenda was addressed at the hemispheric level, provided an opportunity to find a balance among the participants in the regional negotiations.

That opportunity disappeared with the failure of the Cancun Ministerial, highlighting the imbalance of interests among the FTAA nations.

7. Miami Ministerial Acknowledges Cancun Failure, But Does Not Offer Solutions

Two months after the Cancun meeting, in November 2003, the hemisphere's trade ministers met again in Miami. It was a key session not only for its proximity to the deadline, but also because it acknowledged the fact that the Cancun failure could contaminate hemispheric negotiations, creating major difficulties for the FTAA process.

The trade ministers exhibited pragmatism in Miami. Anything resembling the WTO crisis was prevented, and the initiative was kept alive by relaxing some of the principles previously agreed to that were now constraining the negotiations.

In particular, the single undertaking principle was modified,

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“Electoral politics have limited the maneuvers available to the U.S. trade representative.”

with the ministers agreeing that countries could adopt different levels of commitment. The main implication of this new rule is the elimination of the veto power that each country had under the original scheme, in which the failure of any participant to undertake a particular commitment precluded any others from doing so.

The Miami mandate, however, did not specify the route by which the “common set of rights and obligations...shared by all countries” was to be developed. Consequently, for the past several months, the negotiating teams have tried to implement the instructions with no success to date.

8. 2004 U.S. Presidential Elections Do Not Help

The FTAA target date coincides with the upcoming U.S. presidential elections, making it harder for the world trade power to put substantive concessions in sensitive areas, such as agriculture, on the negotiating table. The exclusion of sugar from the Australia-U.S. FTA as well as the small sugar quota granted to the Central American Free Trade Agreement partners illustrate how electoral politics have limited the maneuvers available to the U.S. trade representative.

9. Three Scenarios for Hemispheric Integration Are Possible

Three scenarios to advance hemispheric integration seem possible in the near future: an FTAA “à la carte,” a “spaghetti bowl,” and a “docking station.”

- **FTAA à la Carte.** In this scenario, countries would implement the Miami 2003 Ministerial mandate, undertaking different levels of commitments. There would be a common set of rights and obligations shared by all countries, and plurilateral arrangements for participants willing to assume additional commitments. Although this approach could be implemented with the aid of some general principles, such as “stand still” and transparency,⁴ an FTAA à la carte solution

⁴ This option is explored in H. Blanco, J. Zabludovsky, and S. Gómez Lora, A Key to Hemispheric Integration, *Occasional Paper SITI-03* (Buenos Aires: Inter-American Development Bank, 2004); www.iadb.org/intal/ingles/publicaciones/Blanco-Zabludovsky-GLora_OP-SITI-03.pdf.

does not resolve the imbalance between the United States and Mercosur.

If the so-called “new” issues are excluded—intellectual property rules, government procurement, services, and investment—it is unlikely that the United States would be in a position to eliminate the agricultural protection for products such as sugar, orange juice, tobacco, etc. And, without these concessions, it is very difficult to imagine that Mercosur would be willing to sacrifice the opening of its industrial sector, among other things.

- **Spaghetti Bowl.** In the spaghetti bowl scenario, the United States would continue to negotiate bilateral or subregional agreements in the hemisphere, a tactic it is aggressively pursuing. In May, for instance, initiated negotiations with three Andean countries; this would leave only Mercosur, Venezuela, Bolivia (which might join the Andean group later on), and the Caribbean nations outside of the U.S. free trade network in the region.

This is the most likely scenario, but also the most costly for the region. Under the spaghetti bowl, the United States would become the continental hub, and those countries in the region with FTAs with the United States would be the spokes. As such, they would not be able to accumulate origin in their exports to the biggest market in the world. This scheme would entail cumbersome administration and a lack of efficiency, weaknesses associated with many FTAs.

- **Docking Station.** The docking station concept would build on the flexibilities obtained at the Miami Ministerial, where different speeds and scopes were agreed to. Under this scenario, there would be hemispheric disciplines for trade in goods, but the rest of the negotiating agenda would be bilateral.

Under the FTAA framework, countries in the hemisphere would agree on common rules of origin, a dispute settlement mechanism, and other institutional issues necessary to put a free trade agreement in place. These disciplines would constitute a docking station for countries willing to participate in hemispheric integration. Through bilateral negotiations, nations in the region would progressively link

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themselves to the docking station, which would be a free trade zone for goods, based on accumulation of origin.

- Disciplines not related to trade in goods—such as investment, services, government procurement, and intellectual property—would not be included in the free trade zone but would be part of the bilateral relationships between its members.

10. The First Condition to Be Part of an FTA Is Willingness to Participate

The deadline set in Miami is approaching rapidly. To make the agreement a reality, all participants must show leadership, pragmatism, and flexibility. They must all remember that the main reason to participate in a free trade area is that economic liberalization makes sense on its own merit and that negotiation of an FTA is one of those rare situations in which a “concession” is, in general, something that countries should be doing unilaterally.

On the other hand, the major economic partners should lead the process recognizing that substantive concessions in their sensitive sectors are needed for the agreement to be politically feasible for the rest of the parties. Hopefully, once the electoral turmoil is over, the United States will once again be in a position to play its full part in this ambitious initiative.

Whither the Free Trade Area of the Americas?

by Jeffrey J. Schott

A decade ago, leaders of the 34 democratic nations in the Western Hemisphere agreed at the Summit of the Americas in Miami to negotiate a Free Trade Area of the Americas (FTAA) by January 2005. Trade ministers formally launched negotiations in 1998; the target date for concluding talks has been reconfirmed on several occasions, most recently at the Special Summit of the Americas in Monterrey, Mexico, in January 2004. The once-distant negotiating deadline is now rapidly approaching, but much of the work on the hemispheric pact is yet to be done.

Crafting a free trade agreement among 34 countries that span the world's richest and poorest, largest and smallest, was never going to be easy. The task has been further complicated by the financial crises and political turmoil that have beset many Latin American participants since the FTAA talks began, the U.S. economic downturn in 2001–02, and the new security imperatives of the post-9/11 world. Until recently, Latin American growth has been stagnant, and reform-minded politicians have paid the price. The U.S. economy has recovered, but security issues continue to trump trade considerations in the Washington policy debate. Government officials in both North and South America balk at discussing trade reforms whenever an election approaches. No wonder the co-chairs of the negotiations, the United States and Brazil, are at loggerheads.

This brief note assesses where the FTAA negotiations stand as of May 2004, and speculates on avenues of future progress in the years ahead. I believe that the January 2005 deadline—which most officials privately disavow—is unrealistic. The negotiating timetable will likely parallel to that of the Doha Round in the World Trade

“The once-distant negotiating deadline is now rapidly approaching.”

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Organization (WTO) and may continue for another two years—or perhaps until the expiration of U.S. Trade Promotion Authority in June 2007 (if this is indeed extended by Congress in 2005).

The Current FTAA Impasse

Trade ministers originally agreed in 1998 to work on a comprehensive agenda of issues covering both market access and rulemaking. Talks were organized into nine negotiating groups.¹ In addition, a consultative group on small economies was established to ensure that the concerns of the majority of the FTAA participants were reflected in the work of each group. Committees on electronic commerce and on the participation of civil society were also convened.

Five years of negotiations have produced a bracketed draft text of questionable value. Negotiations to reduce barriers to market access for goods and services—the guts of any free trade pact—have barely progressed after protracted delays. The only positive development to report is the very modest capacity-building initiatives advanced by the Inter-American Development Bank and some national development agencies that have addressed critical infrastructure and administrative problems in smaller economies. Such programs are important components of the trade and development strategies of those countries—and should facilitate their participation in the FTAA.

The United States and Brazil assumed the co-chairmanship of the FTAA negotiations in November 2002 and are supposed to remain in that leadership position for the duration of the talks. The decision to share this task between the dominant economies of North and South America made sense, since the ultimate success of the hemispheric accord depends significantly on bridging the gap between the positions of these two countries. For Brazil, increased access to the U.S. market is *the* economic reason for engaging in the FTAA. In turn, increased access to the Brazilian market via exports and sales by Brazilian-based U.S. subsidiaries is the key prize for the United States.

¹ The groups cover market access for non-agricultural goods, agriculture, services, intellectual property rights, subsidies and antidumping/countervailing duties, government procurement, investment, competition policy, and dispute settlement.

To date, however, differences between the United States and Brazil over the scope and coverage of the prospective FTAA accord have led to a negotiating impasse. **Agriculture is the main source of contention, though not the only difficult issue under negotiation.** Those problems threatened to turn the FTAA ministerial in Miami in November 2003 into a repeat of the failed WTO ministerial in Cancun two months earlier (where U.S.-Brazil acrimony flared up and contributed to a breakdown in the WTO trade talks). To their credit, both countries worked to avoid such an outcome.

Coming so soon after Cancun, failure in Miami would have given supporters of trade liberalization another black eye and possibly undercut support for continuing negotiations. Moreover, trade ministers did not want their leaders to have to address the ensuing mess when they convened in Mexico two months later. So the political imperative was to cut a deal in Miami and go home quickly. Accordingly, FTAA participants papered over their differences and agreed to work to conclude by January 2005 a pact that has been derided by business and other groups as “FTAA lite.”

Miami's Muddled Mandate

The Miami ministerial declaration was a mixture of political pragmatism and diplomatic double-talk. Ministers “affirmed their commitment to a comprehensive and balanced FTAA” (paragraph 5), which includes “provisions in each of the [FTAA] negotiating areas” (paragraph 10). Thus, the final package of agreements should include both market access and rulemaking provisions, though “countries may assume different levels of commitments” (paragraph 7). If some countries want to do more, say on investment, they can enter into plurilateral agreements that only obligate the signatory countries.

Fair enough—so why the concern about an “FTAA lite”?

To some extent, ministers in Miami simply asked their negotiators to do their job, i.e., filter through the total set of requests and offers and sift out what is feasible and desirable, and arrive at a package of agreements that balances the interests and objectives of the participating countries. But in doing so, ministers allowed that some countries could take specific issues

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or products off the table. Combined, these instructions seem to point to two possible outcomes:

- A traditional free trade agreement (FTA) with common obligations that are implemented asymmetrically depending on the development needs of the particular country, and limited carve-outs for sensitive products—in other words, the negotiating mandate pre-Miami 2003.
- A “hollow core” agreement, in which the balance of interests is achieved at the lowest common denominator—that is, where all the sensitive issues are excluded (hence “FTAA lite”) plus plurilateral accords among already existing FTA partners.

The first road led to the negotiating impasse prior to Miami, but offers results more in line with the Summit of the Americas mandate if U.S.-Brazil differences can be bridged. But until elections in both countries this fall, neither country will be in a position to negotiate in these areas.

The second road, in my view, leads to a dead end, for two reasons. First, there is little prospect of achieving a “balanced” package of agreements whose coverage is sufficiently comprehensive to satisfy the U.S. Trade Promotion Authority requirements for U.S. participation. Second, extensive carve-outs from FTAA obligations could trigger (justifiably) a WTO challenge.

Furthermore, it is unclear why the United States wants to pursue the plurilateral approach in the event that the Mercosur countries and others do not accept extensive rulemaking obligations in such areas as investment, services, and intellectual property rights. There is little “additionality” if the plurilateral pacts only involve existing U.S. FTA partners. Harmonizing those existing pacts is a useful exercise; it would largely require a retooling of Canadian obligations in the North American Free Trade Agreement (NAFTA), plus unraveling politically sensitive compromises on origin rules for textiles and clothing and some agricultural products. But that benefit does not seem sufficient to justify going back to Congress for another vote on these pacts.

The FTAA negotiations will not advance far this year for one overriding reason. Both Brazil and the United States face near-term constraints on offering liberalization in areas of interest to the other:

- U.S. officials are reluctant in this election season to touch import-sensitive products like sugar (just ask the

Australians!), and can't address Brazilian concerns about domestic farm subsidies in the FTAA—since such problems require reform commitments from all significant producers in the world market—and will not be able to do so in the Doha Round until Congress begins drafting the next U.S. farm bill around 2006.

- Similarly, Brazil is reluctant to offer reforms in services, intellectual property rights, investment, and government procurement—not just because there is little on offer yet from the United States, but, more importantly, because of domestic resistance to reform of its own high border and regulatory barriers to trade.

In sum, the Miami compromise kept the talks alive, but the political compromise reached in Miami is untenable. There is little chance this year of developing a consensus on a *balanced* package of market access reforms because such a deal would have to include commitments that involve “sensitive” policies in both the United States and Brazil. Without such a basic deal, the FTAA talks will not move forward—irrespective of what one thinks about the plurilateral or multi-tiered approach to negotiations suggested in the Miami Declaration.

Don't Forget the Small Economies!

In the furor over U.S.-Brazil trade frictions, many observers ignore the problems that small economies face in negotiating the FTAA. Some are being helped through bilateral FTAs with the United States and Canada, and development assistance from international financial institutions and national agencies. Delays in the FTAA talks may not be necessarily bad for these countries, if they use the time constructively to advance their preparations at home to meet the demands of regional integration.

Given their size, heavy reliance on the production and trade of a single commodity or service, underdeveloped physical infrastructure, and limited human and technological resources, small economies are especially vulnerable to changes in foreign demand and supply, and to the gyrations of foreign capital and exchange rate markets. Because of their size, however, they cannot afford to isolate themselves from their major markets since they

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are unlikely on their own to reap sufficient economies of scale and scope to compete effectively in global markets. Simply put, the issue is not *whether* to integrate with their hemispheric trading partners, but *how* to do so.

The challenge for these countries is twofold: encouraging growth in trade and inward investment from their FTAA partners, and restructuring their economies to diversify production mix and expand employment opportunities. Small economies need to diversify output, increase efficiency in traditional export sectors (i.e., look downstream in traditional commodity production), and develop new service exports. Much of this effort needs to be done through domestic reforms, and will be needed whether the FTAA exists or not. However, the FTAA could and should include provisions that help small economies in a few specific areas manage the adjustment to more open competition. In particular, smaller partners should be afforded longer periods of time, if needed, to implement liberalization commitments and new trading rules for certain products or sectors and on a country-by-country and case-by-case basis. There should be a fixed end date for full implementation of the agreement that is not too short as to be impractical, but not too long that it provides little incentive to change existing practices.

In addition, depending on the FTAA's substantive content, these countries may need to upgrade their administrative capabilities, or develop regional institutions to complement or supplement them, to meet the requirements of the new trade pacts. In some cases, small economies will need technical and financial assistance to improve their ability to undertake and administer policies required by new trade obligations. Such assistance will be particularly valuable in helping them deal with complex regulatory issues such as competition policy, the protection of intellectual property rights, and the supervision of financial service industries (e.g., by providing training of bank supervisors and other regulatory officials). **Participation in the FTAA should encourage needed inflows of foreign investment as well as increased assistance from the World Bank, regional development banks, and national development cooperation agencies.** Such support will help these countries address these challenges and underwrite new infrastructure projects.

Moving the FTAA Forward

While the FTAA talks continue to drift in the coming months, concrete FTA negotiations will proceed among subsets of the FTAA participants. This is not necessarily bad for the FTAA's prospects. Indeed, if the bilateral and subregional accords accelerate the pace of economic reform, they will contribute significantly to the ability and willingness of Latin American and Caribbean countries to undertake the reciprocal obligations of the broader hemispheric pact.

U.S. officials continue to follow a multi-track approach to trade negotiations. Efforts to revive the Doha Round—prompted by U.S. Trade Representative Robert Zoellick's letter to WTO ministers in January 2004—have been complemented by extensive FTA talks with trading partners around the globe. The only negotiation that has not accelerated has been the FTAA, where there seems to be inadequate political will to confront the main substantive issues—at least for now. Plan B for U.S. officials is to move forward with bilateral FTAs with a number of Latin American and Caribbean countries, challenging Brazil and its Mercosur partners to catch up when they are ready to proceed with the FTAA. For the near term, U.S. officials have opted for a “surround Brazil” negotiating strategy rather than an “engage Brazil” approach—the tactics will have to be reversed eventually if the FTAA talks are to succeed.

In light of the current impasse, Brazil has accelerated negotiations on a free trade pact with the European Union (EU). To a certain extent, the FTAA negotiations give Brazil leverage in its parallel talks with Europe, and vice versa. But neither negotiation is likely to yield the agricultural reforms sought by Brazilian exporters; indeed, it is unclear how a regional pact could effectively dismantle subsidies if other major subsidizers outside the pact do not follow suit.

For that reason, the FTAA and the EU-Mercosur FTA need to be coupled with progress in the Doha Round of WTO negotiations, where Brazil and its Mercosur partners can work with other agricultural-exporting nations to push for multilateral disciplines on farm subsidies. In fact, the United States and Brazil share key objectives in the WTO regarding the importance of achieving deep cuts in farm subsidies and market access barriers, and should be working together to that end in Geneva.

“The FTAA negotiations give Brazil leverage in its parallel talks with Europe, and vice-versa.”

“Ministers must recognize that the negotiations need to aim higher than the Miami 2003 mandate.”

Brazilian negotiators are probably right in arguing that the FTAA must proceed in parallel with the Doha Round. Delay in the WTO talks means that the Doha Round will not reach its hard-bargaining phase until well after new administrations in Washington and Brussels are installed—that is, late 2005 at the earliest. The Brazilians thus discount near-term progress in the FTAA and have been using the talks as a platform for issuing foreign policy pronouncements that do little to advance the business of the Summit of the Americas mandate.

The likelihood is that Western Hemisphere free trade talks will also not be fully reengaged until after the fall elections in both Brazil and the United States. Negotiators from both countries will then have to roll up their sleeves and get down to the hard bargaining.

To get the FTAA process back on track, ministers must recognize that the negotiations need to aim higher than the Miami 2003 mandate and thus will take longer to produce results. The next ministerial in Brazil late this year, preferably after the U.S. elections, should reassess the state of play and redirect negotiators to fulfill the original Summit of the Americas mandate for a growth-enhancing FTAA.

What could be achieved? Eliminating all tariffs is likely to be the basis of the deal, with some balance struck between U.S. farm trade reforms and enhanced access to Latin American procurement and services markets.

On agriculture, all tariffs should be phased out over a 10-year period, and targeted reforms of nontariff barriers should yield concrete market access benefits for other sensitive products (even if some protection is left intact). Again, trade problems related to domestic subsidies cannot be resolved in the context of a regional agreement, but commitments could be made about the use of export subsidies. Regarding procurement, FTAA negotiators should be able to agree on principles that provide transparency for public tenders and guidelines for open tendering. Such rules should be complemented by a commitment to negotiate, within five years or so, a list of entities whose purchases would be covered by these new obligations. Regarding services, the preferred outcome would be agreement on a “negative list” that covers all services subject to FTAA obligations except those explicitly listed—with exceptions

hopefully kept to a minimum. The more likely outcome, however, is to augment WTO commitments on a sector-by-sector basis, with particular emphasis on infrastructure services and e-commerce.

I am less sanguine that progress can be made on two high-profile issues: antidumping and sugar.

- The prospective economic gains from an FTAA probably are not sufficient to offset the almost theological devotion of the U.S. Congress to maintain U.S. antidumping laws, which provide the safeguards measure of choice for protectionist lobbies. Negotiations on antidumping probably will be deferred to WTO talks, although I am not optimistic that substantial changes in existing rules will result from those negotiations, beyond what is already being considered as a result of decisions of the WTO dispute settlement process.² On the other hand, special treatment for FTAA partners in safeguards cases might be possible following, to some extent, the precedent set in NAFTA.
- U.S. FTAs with Central America and the Dominican Republic have provided modest increases in those countries' U.S. sugar quotas (similar increases may be included in the new FTA with Colombia). However, the sugar quota rents that the U.S. program doles out to less competitive suppliers to the U.S. market—including other Latin American and Caribbean producers—would likely disappear if the FTAA opened the market freely to competitive suppliers such as Brazil. At best, such countries should expect no more than a modest expansion of U.S. sugar quotas in the FTAA.

The key to success in the FTAA—for both the United States and Brazil—is agreement on a big package of market access reforms, including agriculture and other goods and services. That means both liberalization of existing tariffs and quotas plus reform of regulatory and administrative practices that effectively impede the ability to sell in foreign markets (including discriminatory standards and customs procedures, sector-specific investment

“The key to success in the FTAA is agreement on a big package of market access reforms.”

² Note that both subsidies and antidumping issues were not disciplined in either the Canada-U.S. FTA or the NAFTA (see Gary Hufbauer and Jeffrey Schott, NAFTA: An Assessment, Washington, DC: Institute for International Economics, 1993).

reforms, and import relief policies—particularly safeguards). Opening new opportunities for trade and investment in the hemisphere is a prerequisite to closing the FTAA deal and ensuring its ratification by national legislatures.

Free Trade in the Americas: Where Are We? Where Could We Be Headed?

by Marcos Sawaya Jank and Zuleika Arashiro

There is much debate on the impact of the boom of preferential trade arrangements throughout the world. For those who defend the multilateral trading system, the proliferation of trade agreements raises concerns as to whether the bilateral movement is compatible with—and even helpful to—the promotion of building blocs for trade liberalization, or if it may cause more harm by diminishing the level of engagement of various actors in international trade negotiations.

Integration in the Americas has to be evaluated on its specifics, but without ignoring the linkages with the Doha Round. While the hemispheric cooperation envisioned in the Declaration of Miami in 1994 goes beyond trade, the agenda's trade component is particularly relevant in terms of a preference for "trade, and not aid" as the alternative for the Americas.

However, after 10 years and more than 500 meetings involving governmental representatives of 34 countries, the Free Trade Area of the Americas (FTAA) project is still searching for an identity. If the goal of the FTAA is to achieve deep regional trade integration with net positive results for all countries and a level of liberalization beyond what could be achieved through the World Trade Organization (WTO), does the path chosen in November 2003—an à la carte FTAA—make sense? Would a series of bilateral and subregional agreements be able to promote real integration, or would they just be pieces of a puzzle with high harmonization costs?

"After 10 years and more than 500 meetings, the FTAA project is still searching for an identity."

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FTAA: Full Fledged, Lite, or à la Carte?

The approach to the FTAA negotiations emerging from Miami in November 2003 is far from the broad-based hemispheric integration envisioned in the '90s. In the Santiago Summit of 1998, countries supported full-fledged hemispheric integration, adopting the concepts of single undertaking, regional most favored nation status, and special treatment for smaller economies as the guiding principles of the negotiations.

The risk of a “lighter” FTAA was first raised with the U.S. decision to remove agricultural subsidies and trade remedy laws—two particularly important issues to Brazil and many other Latin American countries—from regional trade talks. Further, when the United States presented differentiated offers to the subregional blocs, with a more modest one going to Mercosur, defenders of the FTAA in Brazil found it increasingly difficult to promote the idea that a balanced agreement was under negotiation. The Brazilian agricultural sector, for instance, started to fear that an FTAA lite would mean an FTAA with “no sugar in it.”

Brazil also helped level the initially high expectations for the FTAA. Mercosur’s proposal of a three-track approach formally promoted a lite FTAA, facilitating the bloc resistance to negotiate deep market access and rules in services, investment, government procurement, and intellectual property. Following that approach, negotiations of market access in goods, services, and investment would occur either bilaterally or plurilaterally (track one), within a minimal negotiating framework applicable to all countries (track two). Negotiations of agricultural subsidies, trade remedy laws, and rules would be transferred to the WTO (track three). Mercosur’s reaction to the U.S. differentiated offer was to show that it too could adopt this strategy. The United States and Canada would receive offers less attractive than those to be made to smaller economies, in a revival of the Latin American Integration Association (ALADI) style of trade liberalization.

In the à la carte approach to the FTAA that was delineated in Miami, countries are allowed, within a minimal common framework, to shop around for the best deals, either bilaterally or plurilaterally; this applies not only to market access but also to rules for services, intellectual property, and investment. The

implications are clear. Besides breaking with the single undertaking and regional MFN principles, there is a high probability that the coverage of *substantially all trade* required by the General Agreement on Tariffs and Trade (GATT) Article XXIV will end up being much lower than 100 percent, with the exclusion of sugar and other sensitive products.

Brazil and the United States, co-chairs of the FTAA negotiations, have not demonstrated an active engagement toward the successful conclusion of a broad-scale agreement within the initial time frame. At various points, they have indicated that a lite agreement would be the proper result—or at least one more palatable to their domestic constituents.

For different reasons, it seems that the co-chairs have converged around a modest approach. Brazil and its Mercosur partners have decided to focus on the possibilities of an agreement with the European Union (EU). The United States has given new life to its competitive liberalization strategy—a sequence of bilateral free trade agreements (FTAs) in a hub-and-spoke format, covering the whole Western Hemisphere except the Caribbean, Venezuela, and Mercosur.

Dangers of the à la Carte System

The immediate effect of an à la carte FTAA is to add complexity to an already intricate hemispheric web that accounts for more than 60 preferential trade agreements, ranging from partial scope preferential schemes to FTAs and unfinished customs unions. These arrangements also increase the risk of a less ambitious liberalization, allowing for a “substantially all trade” rule that provides margins for the exclusion of sensitive agricultural products that are vital to Mercosur.

No one denies that the United States is one of the most open economies in the world. However, agriculture remains an exception. For the so-called sensitive agricultural products—tobacco, sugar, ethanol, orange juice, and dairy, among others—the United States applies a system of “surgical” intervention, imposing a combination of prohibitive tariffs, tariff rate quotas, special safeguards, and subsidies.

Table 1 illustrates the persistent protectionism applied to agriculture. While Mercosur’s tariff structure is symmetrical with

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“Trade now risks becoming the issue that will drive countries apart, stimulating self-centered solutions.”

Table 1
Comparative tariff structure: Mercosur, EU-15, and United States

Tariff profile (HS - 8 digits)	Agricultural goods			Industrial goods		
	Mercosur	EU-15	U.S.	Mercosur	EU-15	U.S.
Mean	9.9%	29.3%	12.4%	10.9%	4.4%	4.2%
Median	10.0%	14.4%	4.4%	14.0%	3.0%	2.9%
Standard deviation	5.0%	40.3%	29.8%	6.7%	4.2%	5.6%
Maximum	20.0%	277.2%	350.0%	35.0%	26.0%	58.5%
Nb of Tariff lines (A)	959	2,091	1,808	8,771	8,187	8,698
Nb tariff lines > 30% (B)	0	636	102	53	0	46
Percent (B/A)	0.0%	30.4%	5.6%	0.6%	0.0%	0.5%

Note: All minimum tariffs are zero. Estimates for Mercosur do not take into account the 100 exceptions to the Common External Tariff, allowed for each member country. **Sources:** European Commission; Brazilian Ministry of Industry, Development and Foreign Trade; and United States International Trade Commission.

a lower standard deviation, the U.S. and EU tariff structures are characterized by an asymmetrical distribution, with tariff peaks and high tariff dispersion.

A decade ago, trade was seen as a positive driving force for hemispheric cooperation and development. It now risks becoming the issue that will drive countries apart, stimulating self-centered solutions.

One factor that is usually underestimated is that the current framework may also be costly to those countries engaged in bilateral negotiations. As reflected in Jagdish Bhagwati’s image of the “spaghetti bowl,” multiple bilateral trade agreements create cross-discrimination among countries and high costs in terms of rules harmonization. Different tariff phase-out schedules and overlapping and conflicting customs procedures, standards, and rules of origin can overload local bureaucracies, generate high transaction costs, and lead to inefficient outcomes.

Under the format currently promoted in the hemisphere, bilateralization fragments rather than facilitates broader integration into the multilateral trading system. The use of a hub-and-spoke strategy either to promote a unilateral vision of what an FTAA should be or negotiate preferences for a small bundle of products can divert attention from concrete liberalization.

Bilateralization seems to be guided by a short-term perspective of making deals quickly and easily, but the long-term economic outcomes of such initiatives must be assessed. This need is

even more urgent now that Mercosur is giving signs that it also will pursue bilateral approaches, as in the case of the Andean Community-Mercosur economic complementation agreement and the trade talks with Mexico and Central America.

When the proliferation of small trade agreements that favor domestic lobbies has bottomed out, we might be surprised at how little impact they will have on trade and investment creation. Though the current strategies pursued by the United States and Mercosur respond to short-term political considerations, they are harmful to any integration project premised on the cooperation of all actors.

Reinvigorating the Negotiations

Given multiple political difficulties, an FTAA lite (not à la carte) would be acceptable as a second-best option only if a built-in agenda were incorporated. This agenda should provide for commitments of the parties to advance in pending sensitive issues—such as agricultural subsidies and trade remedy laws for the United States and intellectual property for Brazil—at the WTO. In any case, single undertaking and regional MFN treatment should be considered binding principles for all countries, allowing for more balanced and substantial tradeoffs.

In a perfect scenario, agricultural subsidies and trade remedy laws would be part of the negotiations. However, as the United States strongly resists negotiating domestic agricultural support and trade remedy laws at the regional level, an insistence on reintroducing these issues in the negotiations is a sure path toward divergence. In the case of agricultural export subsidies, the United States is more open to negotiation, given that the country's use of this mechanism is quite rare.

Nevertheless, various initiatives could help move the talks forward. In market access for goods, recommendations should be made to both co-chairs to guarantee that negotiations will cover 100 percent of the tariff lines, even if longer tariff reduction periods have to be negotiated. If offers for highly sensitive products appear to be impossible, then broad access for comparable products could be granted, e.g., ethanol instead of sugar or different meats instead of orange juice.

“Given multiple political difficulties, an FTAA lite would be acceptable as a second-best option.”

“Complementary consumption patterns in Brazil and the U.S. provide an opportunity for intra-industry agreements.”

The market for ethanol is expanding in the United States and is very attractive to competitive exporters such as Brazil. U.S. ethanol is based on corn, consuming about 11 percent (28 million tons) of domestic corn production. According to the U.S. Department of Agriculture (USDA), ethanol production will require around 34 million tons of corn by 2013. If the current energy bill is approved, the resultant ethanol demand is expected to require 44 million tons of corn. Over the same period, the USDA estimates that rising Chinese demand will stimulate an increase in U.S. exports of an additional 20 million tons of corn. To satisfy both domestic and Chinese demands, U.S. corn production would have to increase by at least 26 million additional tons, for a total production of 290 million tons. Considering the record U.S. corn production of 265 million tons, the United States will probably have to import ethanol. Brazilian ethanol, whose production is based on sugar cane, has much lower production costs, but its access to the U.S. market is currently restricted by a specific tariff of 54 cents per gallon.

There is an increasing demand in the United States for certain types of meat, but Mercosur countries, despite being major exporters, have faced many difficulties in entering the U.S. market due to sanitary restrictions. Unlike the EU, the United States does not recognize a regionalization principle, which allows parts of a country to be considered disease-free zones. For countries the size of Brazil or Argentina, requiring disease eradication across the whole territory makes exports of fresh beef to the United States unfeasible. Given these limitations, Mercosur beef exports to the United States continue to be restricted to corned beef only. This lack of recognition of the regionalization principle affects not only Mercosur but the United States itself. The recent crisis caused by a case of “mad cow” disease in the state of Washington had a negative effect on U.S. beef exports as a whole.

In the case of poultry, the United States is highly competitive. Its domestic consumption pattern is concentrated on boneless cuts, and the country exports bone-in cuts. Brazil, on the other hand, has a high consumption of bone-in cuts; the country exports boneless cuts. The complementary consumption patterns of the two countries provide an opportunity for intra-industry agreements focusing on mutual supply.

Trade and Hemispheric Cooperation

Various recent studies on the linkages between trade liberalization and development show that, while trade policy is an important tool in promoting development, coordination with other policies is fundamental. Domestic policies to attract investment, improve human capital and promote institutional adjustments are essential for countries to fully exploit the opportunities created by trade liberalization, and they depend primarily on the commitment of individual governments.

One of the reasons why many developing countries pursue trade agreements with developed countries is that they see it as an opportunity to stimulate structural adjustments and lock in reforms. If these long-term considerations are forgotten and negotiations are guided exclusively by a mercantile view, countries will engage in intense product-by-product bargaining that will make hemispheric trade cooperation unobtainable.

A balanced approach to the FTAA debate is still lacking. There is a clear gap between what experts know regarding the benefits of trade integration and the perceptions held by society at large.

Public debate, where it exists, is poor. In Brazil, this debate emphasizes the risks and potential losses, but little is said about the positive results of the adjustments made in the '90s, or the potential benefits to consumers and the consolidation of structural reforms. Raising public awareness about the opportunities brought by trade integration is essential in influencing domestic trade agendas.

Note, for example, the way in which EU-Mercosur negotiations are depicted by the media and the government. Unlike the FTAA, the accord with the EU is promoted as a better alternative, despite heavy restrictions on agriculture and strong demands for liberalization of industrial goods, services, and government procurement.

In the FTAA negotiations, Mercosur has asked for disciplines on domestic support and export subsidies, rejected tariff quotas, and made minimal concessions regarding market access for services. With the EU, on the other hand, Mercosur has been more cooperative. It has not demanded that agricultural subsidies be addressed—despite the fact that total export subsidies in the EU are three times larger

“There is a gap between what experts know about the benefits of trade and perceptions held by society at large.”

**“Ideology
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than in the United States—and it is willing to accept tariff quotas and to give market access for some service sectors.

It is equally important to promote areas where those who favor liberalization in each country can interact. A main weakness of the current stage of the FTAA negotiations—at least for the United States and Brazil—is that protectionist forces have been more active and articulate. Ideology has served to divert attention from a serious debate on the impact of the various routes to trade integration.

Instead of accepting bilateralization in the Americas as a given, we can think strategically, evaluating whether this is the shortest and least costly option to foster regional cooperation and trade integration. Unfortunately, until now, we seem to be victims of a hyperactivity syndrome, closing trade deals for their symbolic value but with little concern for the long-term costs that overlapping trade arrangements may bring to participants.

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